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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

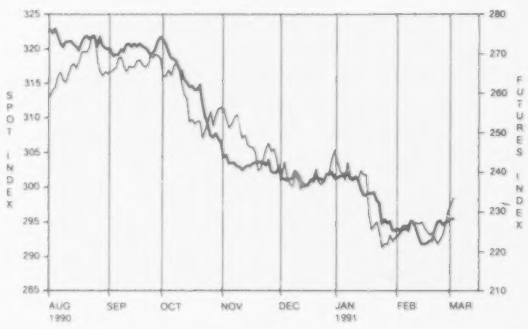
Is The Recession Winding Down?

With the cessation of Persian Gulf hostilities, not only has the national mood brightened but, so, too, has the outlook for the U.S. economy. For although recession still plagues large chunks of the country, and should continue to do so for at least another few months, the removal of the heavy blanket of uncertainty which has enveloped the business environment since last August cannot help but have a salutary effect on consumer attitudes toward spending and corporate America's views toward investing. Indeed, enough tentative signs of life in the pace of business are now appearing to suggest that the current business downturn may well be no worse than the average post-World War II recession. However, with consumer confidence rebounding and industrial commodity prices rising, the stage has been set for a turn toward caution by the Federal Reserve, a development which may well preclude any further declines in interest rates in the weeks ahead.

To be sure, even the best-laid expectations can go awry, and the anticipation of an early summer rebound in the economy is fraught with more than the usual number of potential pitfalls. Corporate profitability, for example, remains anemic, threatening to pinch business spending severely unless reversed. Households, too, are being buffetted by ill winds, including rising joblessness and slower income growth. What is more, perceptions abound that a widespread credit crunch exists, extracting a mounting toll on the economy, and fueling the belief that any business rebound which does get underway might be quickly derailed.

Nevertheless, some brighter economic news is breaking through the overcast. According to the Conference Board, consumer confidence has begun to climb out of the hole into which it fell following the onset of the Persian Gulf crisis, posting its largest monthly gain in February in three years. And, in what could be a harbinger of a bottoming of the slide in industrial activity, the Purchasing Managers' Index rose in February—the first monthly increase since last May.

RAW INDUSTRIALS DAILY INDEX: SPOT PRICES (THICK) VS. FUTURES PRICES (THIN)



Source: Commodity Research Bureau

Signs Of Life

Beyond the surveys, the results of which can be notoriously fickle, many of the economic statistics are firming, if not yet rising. The bolstering of consumer confidence has seemingly already had a beneficial effect on spending. Department store sales jumped in January, and new-car sales stabilized in February. Household attitudes may get a further fillip from some early signs that the erosion in their buying power is being stemmed. For one thing, help-wanted advertising has started to rise for the first time in five months. For another, the slowdown in the rate of inflation in general, and the decline in energy prices in particular, will permit a stretching of even modest income gains. Finally, the 26 percent run-up in equity prices since October, as well as the sharp rise in bond prices, have provided a powerful lift to household wealth.

Since inventories were generally lean virtually across the board when the current long-anticipated business downturn began, and were pared even further during the fourth quarter of last year, any sustained recovery in spending should spill over quickly into an early revival of output. While orders, production and industry

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operating rates are still dropping, the bottom may be near, especially when you consider not only the absence of the need for lengthy inventory workdowns, but also the orders sure to flow from the rebuilding of Kuwait and the likelihood that defense spending will rise, not fall, as an after-effect of the Gulf crisis. Industrial raw materials prices certainly reflect this, behaving as if this view was not only a good bet, but a foregone conclusion. As shown in the chart, spot prices stopped falling in mid-February, and have since moved higher; futures prices have leaped by almost 5½ percent in the past two weeks alone.

Federal Reserve Caution

Admittedly, these are very tenuous signs of recovery, which could easily be reversed should some unexpected development occur. However, barring such an event, even very tentative signs of life in the economy will not escape notice at the Federal Reserve, and might be sufficient to impart a renewed degree of caution in monetary policy deliberations. Although still concerned about the prospect of an economy-hobbling credit crunch, the Fed may now decide to move to the sidelines, while attempting to assess the effects that several months of ease will have on near-term activity levels.

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	209,069	- 467	- 7,690
New York City (2/27/91)	33,472	- 721	- 7,563
Commercial Paper (2/27/91)	569,645	+ 3,525	+ 29,448

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	320,603	+ 839	+ 993
New York City (2/27/91)	58,413	+ 157	- 465

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (2/20/91)	1,063,657	+ 6,599	+ 57,080
New York City (2/27/91)	178,708	- 2,653	- 3,211

Financial Markets

	Friday 3/8/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	6.10%	- .16	- 2.15
180-Day Bills†	6.22	- .15	- 2.09
Longest Bills†	6.38	- .11	- 2.06
Recent Issues:			
6¾s 2/28/93	7.08	- .08	
7⅛s 2/29/96	7.74	- .03	
7¾s 2/15/01	8.11	- .01	
7⅞s 2/15/21	8.28	–0–	
Municipals:			
Bond Buyer—20 Bond Index* (3/7/91)	7.06%	+ .05	- .19
Blue List Total ($ Million)	$1,588	- $128	+$ 143
30-Day Visible Supply ($ Million)	$2,966	+ $250	+$ 534
Total	$4,554	+ $122	+$ 677
Corporates:			
Moody's Aa Composite (3/7/91)	9.19%	–0–	- $.28
30-Day Visible Supply ($ Million)	$ 265	–0–	- $1,185
Stocks:			
Dow-Jones Averages:			
Industrials	2,955.21	+ 45.31	+271.88
Transportation	1,127.64	- 23.10	- 11.41
Utilities	210.45	- 2.89	- 9.05
65 Stocks	1,042.80	+ .28	+ 43.40
N.Y.S.E. Composite Index	204.95	+ 2.56	+ 18.77
N.Y.S.E. Avg. Daily Vol. for Week (000's)	224,015	+ 21,231	+69,749

*34% Taxable equivalent 10.70%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 3/8/91	Week Ago
Overnight	6.38%	6.34%
1 month	6.63	6.88
3 month	6.63	6.81
6 month	6.63	6.81
1 year	6.94	7.06

FOREIGN EXCHANGE SPOT RATES

New York Opening (3/8/91)	Currency Per U.S. $	Week Ago
Belgium	31.10	31.60
Canada	1.1638	1.1540
France	5.2830	5.2310
Germany	1.5580	1.5352
Italy	1164.77	1148.50
Japan	136.45	134.55
Mexico	2977.00	2974.60
Netherlands	1.7580	1.7300
South Korea	711.17	710.78
Switzerland	1.3580	1.3350
Taiwan	26.76	26.70
U.K.*	1.8745	1.9005

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (3/8/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.1%	-2.5%

In recent months, the Fed stepped up its provision of reserves to the banking system, permitted the Federal funds rate to drop decidedly, cautioned bank examiners against overzealousness in pursuit of their tasks, and urged banks to shed any undue reluctance to lend. Since end-October, for example, nonborrowed reserves—the building blocks of the money supply—have risen at a nearly 12 percent annual rate; this compares with no nonborrowed reserves growth during the year ending October 1990. The long-dormant money supply has begun to respond to these measures, with M2 advancing at a better than four percent annual rate since last fall.

Given the end of the war, the drop in interest rates, the firming of several economic statistics, heightened Fed efforts to restart the economy as well as the export-stimulating, undervalued position of the dollar in the foreign exchange markets, it is not too difficult to see the recession ending within the next few months. Having said this, however, the more difficult task may be to maintain the economic recovery that will follow, especially in light of such impediments as hefty consumer and business debt loads, tightened bank regulatory standards, lofty consumer tax burdens—and what will probably be an inflation-wary central bank.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/6/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.639	- .763	+19.970
Loans to Depository Inst.	.483	+ .115	- 1.576
Float	.612	+ .449	+ .158
Total Reserve Bank Credit	286.899	- .942	+18.240
Treasury Deposits with Federal Reserve Banks	9.192	- 4.153	+ 2.999
Currency in Circulation	285.528	+ .993	+29.911
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	254.307	- 1.694	+30.495
	3/5/91		
Member Bank Reserves:			
Total Reserves Held	59.316	- 1.134	+ .268
Excess (Deficiency)	1.187	- .577	+ .390
Net Free Reserves	.811	- .801	+ .140

Monetary Aggregates †		‡ % Change Since 3 Months Ago*	% Change Since Year Ago
M1 (2/25/91)	836.2	+ 6.2	+ 4.4
M2 (2/25/91)	3,360.2	+ 3.4	+ 3.2
M3 (2/25/91)	4,166.4	+ 4.5	+ 2.4
Domestic Nonfinancial Debt (3rd Q'90)	10,309.3	+ 7.0	+ 7.5

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 3/8/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	6.06%	6.04%	6.05%
* Federal Agencies	6.15	6.25	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.44	6.82	7.20
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	6.75	6.75	6.95

‡ Finance Company Paper–Prime

5- 14 days	6.33%
15- 29 days	6.00
30- 59 days	6.50
60- 89 days	6.48
90-179 days	6.39
180-239 days	6.30
240-270 days	6.30

‡* Bankers' Acceptances

Apr.	6.65%
May	6.53
Jun.	6.48
Jul.	6.47
Aug.	6.45
Sep.	6.41

‡ Industrial Paper–Prime

30- 89 days	6.58%
90-120 days	6.50

†Federal Funds Effective Rate 6.00%

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'90	$ 5,521r	$ 5,515	$ 5,289
Gross National Product (1982 Dollars)*	4th Q'90	$ 4,150r	$ 4,170	$ 4,133
Percent Change, Annual Rate	4th Q'90	- 2.0r	1.4	0.3
Change in Consumer Prices*	Jan '91	4.8%	3.6%	10.8%
Change in MH Cost of Living Index*	Jan '91	9.6%	4.8%	10.8%
Change in Producer Prices*	Jan '91	- 1.2%	- 7.2%	20.4%
Civilian Employment (Thousands of Persons) †	Feb '91n	116,918	116,922	118,074
Unemployment as % of Civilian Labor Force †	Feb '91n	6.5%	6.2%	5.3%
Personal Income*	Jan '91n	$ 4,719	$ 4,741r	$ 4,532
Leading Indicators Composite Index (1967=100) †	Jan '91n	139.1	139.7r	145.4
Industrial Production Index (1977=100) †	Jan '91	106.5	107.0	107.5
Net Change in Consumer Installment Credit †	Jan '91n	- $ 2.44	- $ 0.34r	$ 1.21
U.S. Merchandise Trade Balance †	Dec '90	- $ 6.25	- $ 8.91	- $ 6.80
Plant and Equipment Expenditures*	1st Q'91	$ 557.9(a)	$ 532.8(a)	$ 532.4
Private Housing Starts (Thousands of Units)*	Jan '91	850	975	1,543
New Construction Expenditures*	Jan '91n	$ 396.6	$ 407.1r	$ 446.0
Total Business Inventories †	Dec '90	$ 810.7	$ 816.1	$ 795.1
Total Business Sales †	Dec '90	$ 530.9	$ 543.2	$ 527.4

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

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